

# PERAC AUDIT REPORT



## Woburn Contributory Retirement System

JAN. 1, 2000 - DEC. 31, 2005



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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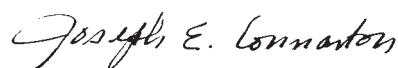
September 22, 2006

The Public Employee Retirement Administration Commission has completed an examination of the Woburn Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2000 to December 31, 2005. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

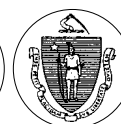
The Woburn Retirement System is currently operating under a temporary order issued by the Commission dated November 17, 2005. In our opinion, the financial records have not been maintained and the management functions were not performed in conformity with the standards established by the Public Employee Retirement Administration Commission, as disclosed in the findings presented in this report.

In closing, I acknowledge the work of examiners James Sweeney and James Tivnan who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



# EXPLANATION OF FINDINGS AND RECOMMENDATIONS

## **Summary of Audit History**

The audit period has been extended to include the six-year interval from January 1, 2000 through December 31, 2005. Numerous attempts were made to schedule an audit within the triennial period cited in our regulations. None of these attempts resulted in a complete audit. We ultimately insisted and set a specific date. The original audit commenced in November 2004. The audit period was designed to cover the four-year interval from January 1, 2000 through December 31, 2003. Numerous systemic issues surfaced with respect to adequate financial recordkeeping and reporting. This audit was suspended in December 2004 due to inadequate recordkeeping practices. The audit recommenced in September 2005 based on assurances that the practices had been corrected and remedied. These assurances were not realized. The audit was suspended again and a Temporary Order was issued on November 17, 2005. We revisited the system in July 2006 to assess the status of progress. In September 2006, we concluded our field work for this audit report.

## **I. Financial Reporting:**

The Woburn Retirement Board was found to be deficient in a broad range of responsibilities related to financial reporting during this audit period. The annual statements were not filed within the timeframe prescribed by statute. G. L. c. 32 § 23 (2) (e) states that each board shall submit annually on or before May 1<sup>st</sup> a sworn statement of the financial condition as of December 31<sup>st</sup> of the previous year. The Woburn Board was current only through December 31, 1999. The Annual Statements for 2000 through 2004 were submitted at various times during 2005. Upon inspection, we noted numerous discrepancies between the numbers reported on the financial statements and those reported by the custodian of the system's assets. This resulted in a lack of confidence in the results reported. In an effort to gain some perspective on this issue, a search of our archived files determined the Board also did not file Annual Statements from 1988 to 1995. This demonstrated a repeated pattern of non-compliance.

**Recommendation:** The Woburn Retirement Board must meet its obligations under G. L. c. 32 § 20 (5) (g) which states in part "Each board of each system shall keep in convenient form such data as is required... for the purpose of valuing the assets, determining the liabilities of the system, ..." G. L. c. 32 § 20 (5) (h) states in part "Each board shall annually, on or before May first, file in the office of the public employee retirement administration commission the financial statement of the system,..." G. L. c. 32 § 20 (5) (i) states in part "Each board shall prepare annually a report which shows the financial condition of the system as of December thirty-first of the previous year in a manner which can be easily understood by the members of said system." These reporting deficiencies were addressed in a Temporary Order issued to the Board dated November 17, 2005.

As the sole source of information to third parties, the Annual Statement and supporting schedules must be in agreement in order to allow readers to make an accurate assessment of the system's financial condition. The Board did finally submit revised Annual Statements for the entire six year audit period that were found to be satisfactory. These were prepared by outside vendors at a considerable additional expense to the members and beneficiaries of the Woburn Retirement System.

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

### **Board Response:**

**The Woburn Retirement Board did file Annual Statements from 1988 to 1995, which are on file in the archives of the System. Thus, “The Woburn Board was current only through 1999.”**

Therefore, the last three sentences of this paragraph should be deleted as they are inaccurate, inflammatory, and arbitrary.

The six annual statements that were submitted by the Board and deemed satisfactory by PERAC were prepared by the staff, with the assistance of outside vendors. The bulk of the work performed within the scope of their engagement was to design and implement operational efficiencies, and aid the Board in developing written policies and procedures that will stand the test of time. The parties worked to consolidate accounting operations, thus providing faster, smoother and timely closing and reporting. A chart of accounts that provides better control over data was developed, enabling the Board to create real organizational value by maintaining quality information. The resulting management of talent has lead to improved capabilities, focused resources, better insights, and smarter decisions in preserving, protecting and ensuring retirement income security for all the system’s members and beneficiaries. Innovation and improved performance require investment. Our pioneering organizational review and management system testing has provided a dependable future outlook through budgeting, planning and forecasting.

### **2. Monthly Reporting:**

The Board had not submitted required monthly reports since 2000. Regulation 840 CMR 4.03 requires that within four weeks of the close of each month the Board shall send to PERAC cash book entries, trial balance and journal entries. The Woburn Retirement Board ignored repeated efforts by PERAC staff to implement compliance with Regulation 840 CMR 4.03. One purpose of this step is to help identify and confirm investment returns independent of the managers and consultants hired by the board. PERAC publishes annual investment returns for each system as well as for all systems cumulatively. Despite not complying with even any minimum reporting requirements, PERAC was able to arrive at an investment return for the Woburn Retirement Board and publish it annually. This was accomplished through making special efforts to acquire, price and confirm investment values. We ultimately acquired the monthly reports for 2005 during September, 2006.

**Recommendation:** The Woburn Retirement Board must maintain the compliance requirements of Regulation 840 CMR 4.03. The public interest is served by confirming investment returns independent of the managers and consultants hired by the board. The public interest is served by annually publishing investment returns for each system. The Woburn Retirement Board must provide a credible investment return to justify its stewardship of the assets and contributions from its members and publish it annually. Compliance with Regulation 840 CMR 4.03 is mandatory.

### **Board Response:**

The Woburn Retirement Board is current (through 12-31-2006) with its monthly reporting requirements. The Board is focused on its stewardship responsibilities to its membership and has always strived to provide credible investment return.

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

### **3. Cash Reconciliation:**

The City Treasurer is not performing a reconciliation of the retirement system's cash accounts on a monthly basis. This is in violation of his statutory responsibility.

**Recommendation:** The City Treasurer shall be the custodian of the retirement systems funds according to G.L. c 32, § 23 (2) (a). As custodian of the retirement fund, the Treasurer is obligated to perform a monthly reconciliation of all retirement system cash accounts. This process is necessary to maintain proper internal control of the retirement system by segregating reconciliatory duties. The Board must ensure that the Treasurer fulfills his fiduciary obligation as custodian of funds. Bank statements must be reconciled to the System's general ledger, reviewed by the Treasurer and the Administrator and reviewed by the Board at the subsequent monthly meeting. These reconciliations must include a complete list of all outstanding items. The Woburn Retirement Board must comply with G.L. c 32, § 23 (2) (a). If the Retirement Board does not receive future completed reconciliations by the end of the following month, it should formally request the reconciliation in writing from the Treasurer's Office.

### **Board Response:**

With the assistance of the Board Staff and the outside vendors engaged by the Board, the City Treasurer has taken responsibility for cash reconciliation and provides the Board with written monthly reports indicating same.

### **4. Outstanding Checks:**

As of December 31, 2005 there were 46 checks outstanding for over 6 months. The total value was \$23,623.27. Four of these checks dated back to 1995. Twenty more were outstanding for over six years.

**Recommendation:** Checks outstanding more than six months should be researched to determine if the payee/retiree is still eligible to receive payment. This process should include letters to retirees requesting information as to the status of the un-cashed checks. The retirees must be given an adequate period to respond. Only after these procedures are completed may the checks be properly disposed of. The proper disposition of these items may involve voiding, reissue or the corrected identification of beneficiaries.

### **Board Response:**

With the assistance of Board Staff and the outside vendors engaged by the Board, the City Treasurer has resolved all the issues related to these outstanding checks.

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

### **Temporary Order Issued:**

The Woburn Retirement System is currently operating under a temporary order issued by the Commission dated November 17, 2005. The Board was directed to engage a third party vendor to complete the required filings that were delinquent. They were also directed to engage a firm to conduct an organizational review of the functions and operations of the Board and staff. A monitor was appointed to attend all meetings of the Woburn Retirement Board and assess compliance with the provisions of this temporary order for as long as it remains in effect. The Board and staff have complied to a significant extent with the provisions described in that document. The filing requirements have been completed. The audit has been completed. They have composed and submitted a detailed action plan that has been partially implemented. This plan was designed to improve operations and provide for the timely filing of accurate financial information in the future. The person designated to monitor the activities of the Board and staff continues to perform this oversight function. The Commission recently voted to extend the temporary order currently in effect. All parties are optimistic that these remedies will eventually result in a satisfactory conclusion to this matter.

### **Final Determination:**

***PERAC audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings. PERAC auditors will increase the frequency of scheduled audits of the Woburn Retirement Board. Audits will be scheduled on an annual basis for the next five years.***

## STATEMENT OF LEDGER ASSETS AND LIABILITIES

Assets	AS OF DECEMBER 31,		
	2005	2004	2003
Cash	\$1,195,770	\$2,032,641	\$2,074,467
Short Term Investments	201,431	200,000	200,000
Fixed Income Securities	11,337,859	10,214,280	8,918,328
Equities	24,197,788	22,496,336	37,527,054
Pooled Domestic Equity Funds	16,237,066	16,237,096	0
Pooled International Equity Funds	4,970,429	8,083,123	6,768,456
Pooled Domestic Fixed Income Funds	4,910,449	4,800,102	3,696,289
Pooled International Fixed Income Funds	4,763,625	5,772,385	5,145,839
Pooled Global Fixed Income Funds	9,351,515	10,970,978	10,266,142
Pooled Alternative Investment Funds	11,063,860	2,164,514	1,775,190
Pooled Real Estate Funds	4,155,143	3,782,959	4,243,301
Interest Due and Accrued	189,682	163,288	106,837
Accounts Receivable	187,428	906,970	915,150
Accounts Payable	(119,197)	(6,626)	(130,379)
<b>Total</b>	<b><u>\$92,642,848</u></b>	<b><u>\$87,818,045</u></b>	<b><u>\$81,506,673</u></b>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$21,584,269	\$19,993,569	\$18,497,679
Annuity Reserve Fund	6,829,309	6,925,571	6,989,310
Pension Fund	7,504,022	5,049,187	8,034,151
Military Service Fund	0	0	0
Expense Fund	0	0	0
Pension Reserve Fund	<u>56,725,249</u>	<u>55,849,718</u>	<u>47,985,532</u>
<b>Total</b>	<b><u>\$92,642,848</u></b>	<b><u>\$87,818,045</u></b>	<b><u>\$81,506,673</u></b>

Note: The following charts contain financial data for 3 years; the additional 3 years can be obtained from PERAC by request



## STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance ( 2003)	\$18,666,578	\$5,328,270	\$10,087,182	\$0	\$0	\$34,052,527	\$68,134,558
Receipts	2,312,228	197,837	3,895,761	0	733,266	13,932,317	21,071,408
Inter Fund Transfers	(2,283,670)	2,282,982	0	0	0	688	0
	(197,457)	(819,779)	(5,948,792)	0	(733,266)	0	(7,699,293)
Disbursements							
Ending Balance (2003)	18,497,679	6,989,310	8,034,151	0	0	47,985,532	81,506,673
Receipts	2,205,806	210,049	3,678,321	0	821,744	7,864,186	14,780,107
Inter Fund Transfers	(568,091)	568,091	0	0	0	0	0
	(141,826)	(841,879)	(6,663,285)	0	(821,744)	0	(8,468,735)
Disbursements							
Ending Balance (2004)	19,993,569	6,925,571	5,049,187	0	0	55,849,718	87,818,045
Receipts	2,309,633	205,787	3,443,612	0	1,021,207	6,579,418	13,559,656
Inter Fund Transfers	(565,309)	607,417	5,671,490	0	0	(5,713,598)	0
	(153,624)	(909,465)	(6,669,979)	0	(1,021,207)	0	(8,754,275)
Disbursements							
Ending Balance (2005)	<u>\$21,584,269</u>	<u>\$6,829,309</u>	<u>\$7,504,021</u>	<u>\$0</u>	<u>\$0</u>	<u>\$56,725,249</u>	<u>\$92,642,848</u>

# STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004	2003
<b>Annuity Savings Fund:</b>			
Members Deductions	\$2,005,644	\$1,930,183	\$1,893,870
Transfers from Other Systems	94,267	115,958	221,509
Member Make Up Payments and Re-deposits	34,047	51,333	32,368
Member Payments from Rollovers	58,482	0	0
Investment Income Credited to Member Accounts	<u>117,193</u>	<u>108,333</u>	<u>164,480</u>
Sub Total	<u>2,309,633</u>	<u>2,205,806</u>	<u>2,312,228</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>205,787</u>	<u>210,049</u>	<u>197,837</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems	59,337	34,921	58,277
Received from Commonwealth for COLA and Survivor Benefits	(765,725)	0	510,483
Pension Fund Appropriation	<u>4,150,000</u>	<u>3,643,400</u>	<u>3,327,000</u>
Sub Total	<u>3,443,612</u>	<u>3,678,321</u>	<u>3,895,761</u>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>1,021,207</u>	<u>821,744</u>	<u>733,266</u>
Sub Total	<u>1,021,207</u>	<u>821,744</u>	<u>733,266</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	15,337	0	6,883
Pension Reserve Appropriation	0	91,910	0
Interest Not Refunded	978	0	0
Miscellaneous Income	1,796	5,296	79
Excess Investment Income	<u>6,561,307</u>	<u>7,766,980</u>	<u>13,925,355</u>
Sub Total	<u>6,579,418</u>	<u>7,864,186</u>	<u>13,932,317</u>
<b>Total Receipts</b>	<u>\$13,559,656</u>	<u>\$14,780,107</u>	<u>\$21,071,408</u>

# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2005	2004	2003
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$69,019	\$108,013	\$135,358
Transfers to Other Systems	<u>84,605</u>	<u>33,813</u>	<u>62,099</u>
Sub Total	<u>153,624</u>	<u>141,826</u>	<u>197,457</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	860,322	841,879	807,850
Option B Refunds	<u>49,143</u>	<u>0</u>	<u>11,929</u>
Sub Total	<u>909,465</u>	<u>841,879</u>	<u>819,779</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	4,416,510	4,362,183	4,202,909
Survivorship Payments	521,475	444,297	467,864
Ordinary Disability Payments	48,836	39,363	40,311
Accidental Disability Payments	914,447	990,721	782,524
Accidental Death Payments	460,227	408,132	352,787
Section 101 Benefits	62,017	56,134	64,763
3 (8) (c) Reimbursements to Other Systems	246,466	362,455	37,634
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>6,669,979</u>	<u>6,663,285</u>	<u>5,948,792</u>
<b>Military Service Fund:</b>			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>			
Board Member Stipend	17,999	16,788	15,288
Salaries	205,031	194,811	183,137
Legal Expenses	0	0	2,124
Travel Expenses	11,066	6,182	7,340
Administrative Expenses	27,749	30,529	28,090
Furniture and Equipment	0	11,434	0
Management Fees	548,885	372,600	339,619
Custodial Fees	121,380	100,163	90,167
Consultant Fees	70,000	89,236	67,500
Service Contracts	15,697	0	0
Fiduciary Insurance	<u>3,399</u>	<u>0</u>	<u>0</u>
Sub Total	<u>1,021,207</u>	<u>821,744</u>	<u>733,266</u>
<b>Total Disbursements</b>	<u><b>\$8,754,275</b></u>	<u><b>\$8,468,735</b></u>	<u><b>\$7,699,293</b></u>

# INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004	2003
<b>Investment Income Received From:</b>			
Cash	\$52,210	\$12,874	\$21,236
Short Term Investments	4,553	2,523	9,793
Fixed Income	550,467	877,725	560,554
Equities	225,272	246,735	298,451
Pooled or Mutual Funds	1,070,706	473,248	495,218
Commission Recapture	9,858	25,872	20,723
<b>Total Investment Income</b>	<u>1,913,065</u>	<u>1,638,976</u>	<u>1,405,975</u>
<b>Plus:</b>			
Realized Gains	3,477,636	646,770	227,307
Unrealized Gains	10,495,641	10,492,769	14,019,067
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>189,682</u>	<u>163,288</u>	<u>106,837</u>
Sub Total	<u>14,162,959</u>	<u>11,302,826</u>	<u>14,353,210</u>
<b>Less:</b>			
Paid Accrued Interest on Fixed Income Securities	(27,787)	(30,962)	(56,682)
Realized Loss	(1,918,723)	(800,159)	(484,108)
Unrealized Loss	(6,060,732)	(3,096,740)	(163,414)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(163,288)</u>	<u>(106,837)</u>	<u>(34,043)</u>
Sub Total	<u>(8,170,530)</u>	<u>(4,034,697)</u>	<u>(738,246)</u>
<b>Net Investment Income</b>	<u>7,905,494</u>	<u>8,907,105</u>	<u>15,020,938</u>
<b>Income Required:</b>			
Annuity Savings Fund	117,193	108,333	164,480
Annuity Reserve Fund	205,786	210,049	197,837
Military Service Fund	0	0	0
Expense Fund	<u>1,021,207</u>	<u>821,744</u>	<u>733,266</u>
<b>Total Income Required</b>	<u>1,344,186</u>	<u>1,140,126</u>	<u>1,095,583</u>
Net Investment Income	<u>7,905,494</u>	<u>8,907,105</u>	<u>15,020,938</u>
Less: Total Income Required	<u>1,344,186</u>	<u>1,140,126</u>	<u>1,095,583</u>
<b>Excess Income To The Pension Reserve Fund</b>	<u>\$6,561,308</u>	<u>\$7,766,980</u>	<u>\$13,925,355</u>

# SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2005			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$1,195,770	1.29%	100%
Short Term	201,431	0.22%	100%
Fixed Income	11,337,859	12.27%	40-80%
Equities	24,197,788	26.19%	60%
Pooled Domestic Equity Funds	16,237,066	17.58%	
Pooled International Equity Funds	4,970,429	5.38%	4%
Pooled Domestic Fixed Income Funds	4,910,449	5.32%	
Pooled International Fixed Income Funds	4,763,625	5.16%	
Pooled Global Fixed Income Funds	9,351,515	10.12%	
Pooled Alternative Investment Funds	11,063,860	11.98%	5%
Pooled Real Estate Funds	4,155,143	4.50%	10%
<b>Grand Total</b>	<b><u>\$92,384,935</u></b>	<b><u>100.00%</u></b>	

For the year ending December 31, 2005, the rate of return for the investments of the Woburn Retirement System was 7.26%. For the five-year period ending December 31, 2005, the rate of return for the investments of the Woburn Retirement System averaged 8.71%. For the 21-year period ending December 31, 2005, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Woburn Retirement System was 10.67%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Woburn Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

April 15, 2005

16.08 In accordance with PERAC Investment Guideline 99-3, the Woburn Retirement Board is authorized to invest in Charlesbank Equity Fund VI, L.P., managed by Charlesbank Capital Partners. The System has been a satisfied investor in Charlesbank Equity Fund V and has submitted the required regulatory documents.

May 11, 2001

1. Exemption of the Board and INVESCO from the second sentence of 840 CMR 17.04(1)(c) – This regulation deals with the use of non-public information by managers and consultants. PERAC recognizes that, in making the investments contemplated by the INVESCO Funds delineated above, the sentence, which prohibits action until information is publicly disseminated, represents an undue burden on the ability of the Partnerships to operate. Consequently, the Woburn Retirement Board requests as it applies to 840 CMR 17.04(1)(c) is approved.

2. Exemption of the Board and INVESCO from 840 CMR 17.04(6), except as otherwise provided for the Partnership Agreement and/or as disclosed in INVESCO's Form ADV – This regulation deals with the Priority of Transactions and an investment manager's obligation to prioritize board transactions and provide the board with the opportunity to act prior to the manager acting, if applicable. PERAC recognizes that this Regulation may impede the ability of partnerships such as INVESCO's to operate. Upon receipt of a copy of the provisions of the Partnership Agreement and/or disclosures in the INVESCO Form ADV, the Commission will approve the Woburn request as it applies to 840 CMR 17.01(6).

3. Exemption of the Board and INVESCO from 840 CMR 19.01(7)(a)(6) with respect to the management fees and the General Partner's Carried Interest to be received by the manager or the General Partner pursuant to the (a) Subscription Agreement, (b) Agreement as defined in the side letter, and/or (c) Manager's Investment Advisory Agreement with respect to the Board's commitments to the Partnerships – PERAC recognizes the fact that the market, at the present time, is such that fee limitations, as outlined in these Regulations, result in limiting the number of partnerships available to the retirement boards. Consequently, the Woburn Retirement Board request, as it applies to 840 CMR 19.01(7)(a)(6), is approved.

4. Exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) the extent as otherwise permitted under the applicable agreement – These Regulations prohibit certain transactions as follows: 21.01(2) prohibits the sale of securities not owned by the system at the time of the sale (short sales); 21.01(3)(a) permits the use of forward currency contracts in limited circumstances;

21.01(4) prohibits the use of call options; 21.01(5) prohibits the purchase of options other than as required to close out option positions. PERAC has received a letter dated August 22, 2000 from INVESCO that clarifies the possible use of options, futures, or other derivatives. In pertinent part, the letter states as follows:

## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

“Although the above referenced funds do not expect to use options, futures, or other derivatives other than infrequently, if at all, futures and/or options would be used only for non-speculative true hedging purposes. In general, we would anticipate their use, if at all, for among other reasons to protect downside risk on public securities of companies distributed to the funds by the underlying portfolio funds we invest in and where a commitment to a fund was made in a non US currency to limit currency risk of the funds.” PERAC approves the exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a),

21.01(4), and 21.01(5) for the limited purpose of protecting downside risk on public securities of companies distributed to the funds by underlying portfolio funds and to limit currency risk of the funds where a commitment to a fund was made in non US currency.

January 10, 2000

19.01(6) Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Woburn Retirement Board may invest funds of the Woburn Retirement System (the “System”) with a real estate investment fund, as contemplated by 840 19.01(4)-(6), known as Realty Associates Fund V Corporation (“the Fund”), and while the funds of the System are so invested the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et. seq. and 17.00 et. seq., the System’s interest in the Fund but not any of the underlying assets of the Fund; provided that, at all times, the Fund qualifies as a “real estate operating company” or “venture capital operating company” within the meaning of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and the regulations promulgated thereunder, or the assets of the Fund otherwise would not be treated as subject to ERISA.

August 23, 1999

19.01(6) No board shall invest in a group trust, limited partnership, or other form of pooled investment which invests in real estate if: c) more than 25% of the funds thereof are invested in a single investment.

January 15, 1999

19.01(6) Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Woburn Retirement Board may invest funds of the Woburn Retirement System (the “System”) with a real estate investment fund, as contemplated by 840 19.01(4)-(6), known as Realty Associates Fund V Corporation (“the Fund ”), and while the funds of the System are so invested the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et. seq. and 17.00 et. seq., the System’s interest in the Fund but not any of the underlying assets of the Fund; provided that, at all times, the Fund qualifies as a “real estate operating company” or “venture capital operating company” within the meaning of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and the regulations promulgated thereunder, or the assets of the Fund otherwise would not be treated as subject to ERISA.

## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

December 29, 1997

20.03(1) Equity investments shall not exceed 60% of the portfolio valued at market, including international equities which shall not exceed 4% of the portfolio valued at market.

October 10, 1996

20.03(1) Equity investments shall not exceed 60% of the total market value of the portfolio at the time of purchase.

September 21, 1992

20.06(2) Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services, excluding Columbia Gas 9.62% due 6/15/2005. 20.06(4) Fixed income holdings which are downgraded by one or more recognized rating services to below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed one year, excluding Columbia Gas 9.62% due 6/15/2005 which may be held at the discretion of the board's qualified investment manager.

February 21, 1992

4.03 (1) Within four (4) weeks of the close of each month , after all entries for the month have been posted and a trial balance performed, the board shall send to the Public Employee Retirement Administration a photocopy of the following for the month:

- (a) cash book entries;
- (b) trial balance; and
- (c) journal entries.



# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Woburn Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

### ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

### PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

#### **Group 1:**

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

### RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

### RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

### SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

## NOTES TO FINANCIAL STATEMENTS (Continued)

### AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

### DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, s. 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

#### ORDINARY DISABILITY

**Eligibility:** Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

**Retirement Allowance:** Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

#### ACCIDENTAL DISABILITY

**Eligibility:** Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

**Retirement Allowance:** 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$611.28 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ACCIDENTAL DEATH

**Eligibility:** Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board.

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

### DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

### METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

**Option A:** Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

**Option B:** A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

**Option C:** A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Woburn Retirement System has not submitted any supplementary membership regulations to PERAC.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the City Auditor who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Gerald W. Surette

Appointed Member: A. John Flaherty                      Term Expires: At will of Mayor

Elected Member: Marilou E. Lundin                      Term Expires: 11/08/08

Elected Member: Denis P. Devine                      Term Expires: 12/31/07

Appointed Member: John P. Giangrande                      Term Expires: 1/1/09

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	
Ex-officio Member:	)	\$50,000,000 MACRS Policy
Elected Member:	)	
Appointed Member:	)	
Staff Employee:	)	

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Buck Consultants as of January 1, 2005.

The actuarial liability for active members was	\$63,295,250
The actuarial liability for retired members was	<u>57,299,797</u>
The total actuarial liability was	120,595,047
System assets as of that date were	<u>87,818,592</u>
The unfunded actuarial liability was	<u>\$32,776,455</u>
 The ratio of system's assets to total actuarial liability was	 72.8%
As of that date the total covered employee payroll was	\$22,623,505

The normal cost for employees on that date was 7.8% of payroll

The normal cost for the employer was 4.3% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum  
 Rate of Salary Increase: 3.00% in 2005 increasing to 4.75% in 2013 and later

### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2005

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2005	\$87,818,592	\$120,595,047	\$32,776,455	72.8%	\$22,623,505	144.9%
1/1/2000	\$75,960,104	\$88,762,762	\$12,802,658	85.6%	\$17,183,350	74.5%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Retirement in Past Years										
Superannuation	12	13	6	16	11	7	12	43	14	6
Ordinary Disability	0	0	0	0	0	1	0	0	0	1
Accidental Disability	0	1	2	1	1	2	1	1	2	1
Total Retirements	12	14	8	17	12	10	13	44	16	8
Total Retirees, Beneficiaries and Survivors	366	371	371	379	382	375	375	409	418	428
Total Active Members	522	546	492	537	593	633	668	668	663	551
Pension Payments										
Superannuation	\$2,264,624	\$2,473,182	\$2,686,175	\$2,807,580	\$2,997,585	\$3,272,143	\$3,201,930	\$4,202,909	\$4,362,183	\$4,416,510
Survivor/Beneficiary Payments	259,572	264,117	280,616	284,654	360,382	127,855	469,421	467,864	444,297	521,475
Ordinary Disability	61,161	53,187	33,115	36,239	38,029	45,276	45,489	40,311	39,363	48,836
Accidental Disability	581,060	637,128	623,454	652,069	763,288	801,895	784,482	782,524	990,721	914,447
Other	<u>386,009</u>	<u>390,428</u>	<u>385,214</u>	<u>405,724</u>	<u>463,195</u>	<u>595,569</u>	<u>552,415</u>	<u>455,184</u>	<u>826,722</u>	<u>768,710</u>
Total Payments for Year	<u>\$3,552,426</u>	<u>\$3,818,042</u>	<u>\$4,008,574</u>	<u>\$4,186,266</u>	<u>\$4,622,478</u>	<u>\$4,842,739</u>	<u>\$5,053,737</u>	<u>\$5,948,792</u>	<u>\$6,663,285</u>	<u>\$6,669,979</u>

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